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Report to Congressional Committees

January 1997

ACQUISITION REFORM

DOD Faces Challenges in Reducing Oversight Costs

GAO/NSIAD-97-48

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General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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Congressional Committees

The Department of Defense (DOD) has made acquisition reform one of its highest priorities as it attempts to reduce the cost of acquiring weapon systems in an era of constrained defense budgets. Savings from acquisition reforms are, in part, expected to provide funds for DOD's planned modernization efforts. As one element of its acquisition reform efforts, DOD has focused considerable attention on reducing oversight costs, which are considered to be a significant factor in influencing the price DOD pays for goods and services.[1]

This report deals with our review of the *Reducing Oversight Costs* reinvention laboratory that DOD established in September 1994 as a result of the National Performance Review. The laboratory had as its overall objective the reduction of nonvalue added oversight requirements with the intent of reducing the contractors' compliance costs and the government's cost of performing oversight activities. The focus of our review was to determine (1) the laboratory's success in effecting changes to DOD oversight requirements and reducing oversight costs, (2) any obstacles to achieving these benefits, and (3) lessons learned from laboratory experiences. We conducted this review under our basic legislative responsibilities and are addressing this report to the committees that foster acquisition reform.

Background

The National Performance Review is a major reform initiative begun by the President in 1993 and was placed under the direction of the Vice President. A key part of that initiative has been the establishment of agency "reinvention laboratories," which are designed to test ways that agencies can improve their performance by reengineering their work processes and eliminating unnecessary regulations. We reported in March 1996 that more than 2 dozen agencies and other federal entities had developed a total of 185 reinvention laboratories.[2]

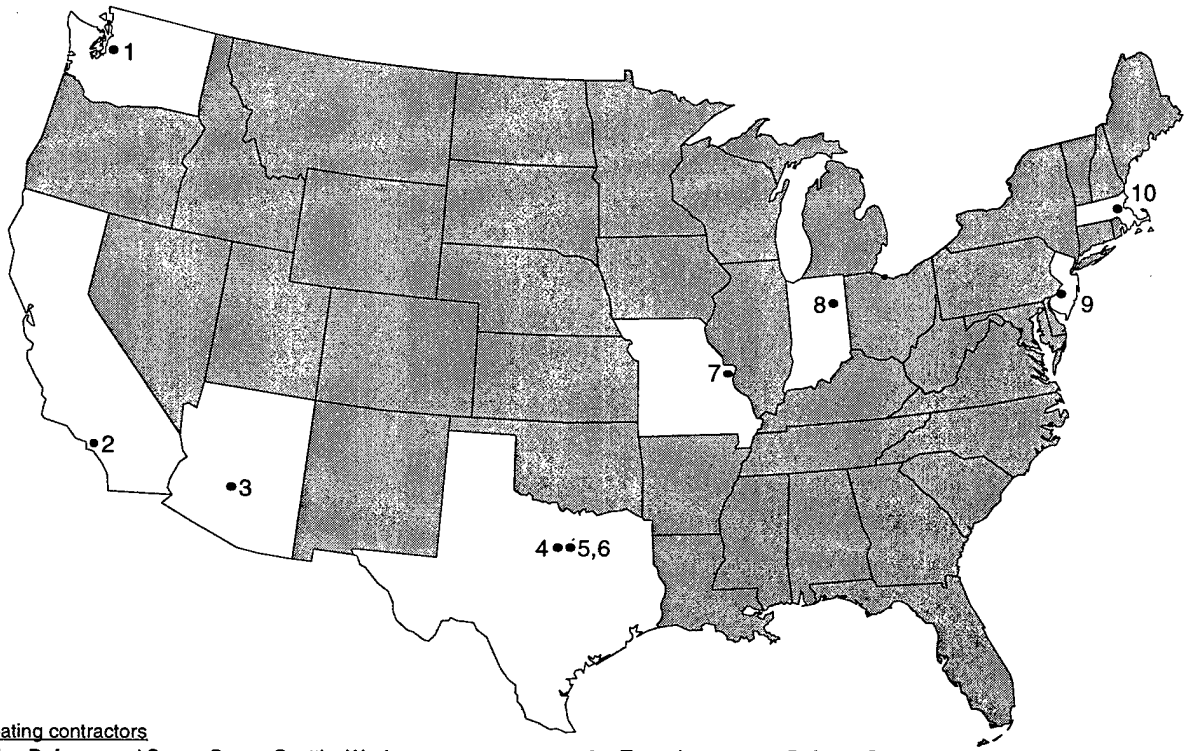
DOD's *Reducing Oversight Costs* reinvention laboratory consists of 10 participating defense contractor sites, as well as cognizant Defense

[1]For additional information on DOD's efforts, see Acquisition Reform: Efforts to Reduce the Cost to Manage and Oversee DOD Contracts (GAO/NSIAD-96-106, Apr. 18, 1996).

[2]For additional information on reinvention laboratories, see Management Reform: Status of Agency Reinvention Lab Efforts (GAO/GGD-96-69, Mar. 20, 1996).

Contract Management Command (DCMC) and Defense Contract Audit Agency (DCAA) offices, as shown in figure 1. Each site established a management council generally comprised of representatives from the contractor, DCAA, DCMC, and selected DOD program offices. The reinvention laboratory's concept of operations was to have participants conduct cost-benefit analyses of oversight requirements, eliminate requirements that drive nonvalue added oversight, and use the regulatory relief authority granted to designated reinvention laboratories to deviate from the Federal Acquisition Regulation (FAR) or the Defense Federal Acquisition Regulation Supplement to experiment and test new approaches to oversight.

Figure 1: *Reducing Oversight Costs* Reinvention Laboratory Participants



Participating contractors

1. Boeing Defense and Space Group, Seattle, Wash.
2. Northrop Grumman Military Aircraft Division, Hawthorne, Calif.
3. Hughes Missile Systems Company, Tucson, Ariz.
4. Lockheed Martin Tactical Aircraft Systems, Fort Worth, Tex.
5. Loral Vought Systems, Grand Prairie, Tex.
6. Texas Instruments Defense Systems and Electronics Group, Dallas, Tex.
7. McDonnell Douglas Aerospace, St. Louis, Mo.
8. Magnavox Electronics System, Fort Wayne, Ind.
9. Lockheed Martin Government Electronic Systems, Moorestown, N.J.
10. Raytheon Electronics Systems, Bedford, Mass.

Note: Names of participants were current at the time of our review, but may not reflect subsequent mergers, acquisitions or reorganizations.

To measure the laboratory's progress, DOD requested that participants report on the projects that were being pursued, their potential savings, and the actual savings achieved. The participants were requested to group their results according to the cost drivers identified by the management consulting firm of Coopers & Lybrand in its December 1994 study. This study, which was prepared with the assistance of TASC, Inc., estimated that government acquisition regulations and oversight requirements added

18 percent to the cost of goods and services DOD buys.[3] In total, the report covered more than 120 cost drivers. The report concluded that the following top 10 cost drivers accounted for almost half of the 18-percent cost impact:

- DOD quality program requirements,
- Truth in Negotiations Act (TINA),
- cost/schedule control system requirements,
- configuration management requirements,
- contract specific requirements,
- DCAA/DCMC interface,
- Cost Accounting Standards,
- material management and accounting system,
- engineering drawings, and
- government property administration.

Appendix I provides more information about the 10 cost drivers.

Many laboratory participants are also involved in the Single Process Initiative announced by the Secretary of Defense in December 1995. This initiative is aimed at reducing or eliminating multiple, government-unique management or manufacturing requirements to enable the establishment of common, facility-wide systems.

Results in Brief

While the reinvention laboratory was an effort limited to only 10 locations, its results highlight some of the challenges that DOD faces in attempting to reduce oversight costs. Overall, the reinvention laboratory has made only limited progress in implementing changes to reduce contractors' costs of complying with government regulations and oversight requirements. In particular, laboratory participants reported little success in addressing 9 of the top 10 cost drivers. Several factors, according to DOD and contractor officials, limited the ability of laboratory participants to make changes and achieve significant cost reductions. DOD officials noted that on a more general level, the reinvention laboratory tended not to get the highest level of support from other components within DOD and from service components. Other factors tended to affect specific projects, including statutory and non-DOD regulatory requirements, disagreements between DOD and contractor personnel on the value of certain oversight

[3]The DOD Regulatory Cost Premium: A Quantitative Assessment, Coopers & Lybrand/TASC, Inc., Dec. 1994. Two of the 10 contractors participating in the reinvention laboratory were among those included in the Coopers & Lybrand study.

requirements, and difficulties in coordinating and obtaining approval for proposed changes where multiple customers were involved.

While the laboratory results highlight the challenges faced by DOD, the results should not deter DOD from continuing its efforts to reduce nonvalue added oversight requirements. Rather, the lessons learned from the reinvention laboratory suggest that DOD leadership needs to continue support of oversight reform. While DOD is in the process of closing the reinvention laboratory, DOD officials noted that many of the lessons learned have been reflected in structuring its Single Process Initiative. DOD officials noted that the initiative is open to all defense contractors and believe that it will provide a more effective means for addressing many of the technically oriented issues such as manufacturing and quality assurance processes. DOD officials cited the use of management councils as a key element in the initiative, as well as using a more structured approach to reviewing and approving projects and designating senior DOD and service officials to serve as facilitators. In doing so, DOD anticipates that proposals submitted under the Single Process Initiative will be reviewed and approved in a more timely fashion.

From a budgetary perspective, the laboratory results also suggest that caution must be used in estimating cost reductions from oversight reform. Only a small portion of the projected potential cost reductions from laboratory projects had been realized as of July 31, 1996. DOD officials noted that it may be some time before it is known whether the remaining projects will be approved and implemented, and many of the projects may incur implementation costs that would partially offset cost reductions in the near term. Finally, the amount of cost reduction that can actually be achieved from oversight reform remains in question as participants generally found the cost impact identified by Coopers & Lybrand as being overstated at their companies. For example, 5 participants prepared estimates for the top 10 cost drivers and their estimates ranged from 1.2 to 6.1 percent compared to the study's estimate of 8.5 percent.

Limited Laboratory Success in Making Change

Through July 31, 1996—the date of the last status report—laboratory participants estimated that if all their projects are approved and fully implemented, annual cost reductions of about $159 million could be achieved. As shown in appendix I, about $145 million, or 91 percent of the total amount, would be in the form of reduced contractor compliance costs. Of the $145 million in potential annual cost reductions, about $11 million has been reported as being realized from actions already

implemented. Laboratory participants identified modest reductions—about $14 million—in direct government oversight costs.[4] Finally, while both DCMC and DCAA are generally planning further reductions to its staff at the reinvention sites, DOD officials acknowledge these reductions are primarily due to overall budget constraints rather than laboratory efforts.

Laboratory participants reported little success in addressing 9 of the top 10 cost drivers identified by Coopers & Lybrand, with the majority of the projected savings expected to come from changes in the contractors' quality assurance systems. Changes in quality assurance processes generally reflect decisions to convert from a military to a commercially or internationally accepted standard that contractors believe improved their long-term competitiveness.[5] These changes were greatly facilitated by the Secretary of Defense's June 1994 decision to allow the use of commercial specifications or standards in lieu of military requirements unless no practical alternative existed.

Factors Inhibiting Change

Participants identified a variety of factors as to why changes to the other nine cost drivers were not more successful. Some factors affected the laboratory at a more general level, while others had a more direct effect on individual projects. Requirements imposed by statute and non-DOD regulatory requirements precluded participants from pursuing some projects, while the inability to obtain approval from other federal agencies to test new processes also proved formidable. On other projects, differences in views between DOD and contractor personnel on the merits of certain oversight requirements slowed down or otherwise limited opportunities to make meaningful changes. Coordinating and obtaining approval for proposed changes among multiple customers—while generally not precluding a project from being pursued—also tended to be difficult.

On a more general level, participants voiced frustration at delays in having projects or waivers reviewed and approved. Participants also noted that successfully implementing reform efforts requires high level attention and

[4]The estimate for the government oversight cost reduction was based on the latest data as of December 31, 1995. Laboratory participants reported that one project, for example, could reduce contractor system audit costs by 50 percent. Local DOD representatives will prepare an annual government audit schedule and share it with the program offices who will be offered an opportunity to join local audit teams instead of sending their own teams. Laboratory participants estimate this change will save DOD about $1.2 million annually in staff costs, while the contractor's cost to support such reviews will be reduced by an estimated $1.1 million annually.

[5]For more information on commercial quality assurance practices, see Best Practices: Commercial Quality Assurance Practices Offer Improvements for DOD (GAO/NSIAD-96-162, Aug. 26, 1996).

support within DOD. One participant noted, for example, that depending on the issue, there were relatively few officials that were empowered to approve a change, while many could reject or delay a proposal. Further, DCMC officials told us that the reinvention laboratory, a joint DCMC/DCAA initiative, tended not to get the highest level of support from other components within DOD and from service components. They said that the laboratory was not a "big attention grabber" for many of the military commands and buying offices. One senior official noted, for example, that when he would visit a command or buying office to talk about the laboratory and its potential, the response was often that they had other priorities. In contrast, this official noted that the Single Process Initiative has the attention and support of both the Secretary of Defense and the Under Secretary of Defense for Acquisition and Technology. Accordingly, the Single Process Initiative is receiving the type of attention where commands and buying offices are more cognizant of and receptive to reform proposals.

Legislative and Regulatory Requirements

Laboratory participants found that legislative and regulatory requirements affected their efforts on several cost drivers. Legislative requirements generally cannot be unilaterally waived unless an agency has specific legislative authority to do so. Similarly, federal agencies have promulgated regulations to accomplish their assigned responsibilities. Regulations under the control of non-DOD agencies cannot be waived by DOD without the approval of cognizant agencies. Participants noted that 3 of the top 10 cost drivers identified by the Coopers & Lybrand study—the requirements of TINA, government property administration and Cost Accounting Standards—fell into this category.

Participants considered addressing the cost of complying with TINA by increasing the threshold over which they were required to submit certified cost and pricing data. While teams often disagreed on the merits of raising the threshold, the proposals generally could not be pursued since the threshold is legislatively established. Consequently, participants chose to pursue changes in the processes that they use to comply with the legislation's requirements. For example, one team agreed to eliminate formal proposals for ordering production spares, while another laboratory site is evaluating the expanded use of parametric estimating techniques in

lieu of preparing detailed cost data.[6] A senior DCAA official stated that addressing the way in which contractors comply with TINA's requirements can lead to reduced compliance costs while still providing the government the benefits associated with TINA's requirement to have contractors submit current, complete, and accurate pricing data.

Participants' proposed changes to government property requirements encountered a combination of legislative and regulatory requirements. Nine of the 10 participants proposed efforts addressing requirements pertaining to government property in the possession of contractors. Several of the proposals involved requesting a waiver to increase the threshold to account for government property from $1,500 to $5,000 or to eliminate certain screening requirements for excess property. However, DOD generally disapproved these requests, in part because the waivers involved legislative requirements implemented through regulations under the control of the General Services Administration. DOD officials indicated that DOD did not have the authority to waive the regulatory requirements unilaterally and that the General Services Administration stated that it was precluded from law from approving the waivers.

Overall, laboratory participants generally found that obtaining waivers to requirements controlled by other federal agencies was difficult. In addition to the 12 government property waiver requests disapproved by DOD, an additional 3 requests to waive requirements controlled by the Department of Labor were also disapproved. In notifying DOD that the Department of Labor would not approve the requests, a senior Labor official indicated that the proposed changes would hamper Labor's efforts to enforce certain executive order provisions. Participants had some success in obtaining waivers from regulations that DOD had authority to waive unilaterally, as participants are implementing 13 waivers to various FAR or DOD regulations. However, these waivers—which DOD estimates could result in cost avoidances of about $2.3 million annually—account for only a small portion of the laboratory's potential cost reductions.

The third legislatively based cost driver—Cost Accounting Standards—was not addressed by laboratory participants. DCAA officials told us that none of the reinvention laboratory participants had identified any specific

[6]Parametric techniques involve the use of cost estimating relationships and mathematical algorithms to estimate various costs. For example, if historical cost data have demonstrated that the cost to test an item is generally 25 percent of the item's manufacturing cost, then a parametric estimate would simply compute test costs as one-fourth of the item's manufacturing cost. In contrast, a detailed, grass roots estimate could involve using very precise Industrial Engineering standards, in which an estimator assigns a time value to each of the planned tasks, calculates the cost associated with each task, and then builds up the final estimate by summing the tasks' respective costs.

improvements or any nonvalue added oversight requirements that related to Cost Accounting Standards. One DCMC official noted that, in his opinion, the annual cost of maintaining a system that complies with the standards is relatively small for defense contractors. The official noted, however, that the cost for a company to establish a system that is in compliance may be significant and therefore may pose a barrier to do so.

Disagreement on Merits of Changes

Given the nature of the defense industry, there are often differing views on the degree of oversight needed. We found examples of such differences in views over both cost and schedule control systems and government property requirements. For example, participants' efforts to revise their organizations' cost/schedule control systems, used by government officials to monitor contractor progress, illustrate the challenges of overcoming different perspectives on the merits of changing oversight practices and processes. Two contractors proposed implementing new systems that, in their view, were more reflective of the information they used to manage their production efforts. In one case, contractor officials told us that concerns raised by DCMC, DCAA, and their primary customers led them to withdraw the proposal and focus on less "radical" changes, such as reducing the amount or type of information provided. However, according to contractor officials, even these proposed changes met with resistance from their program office customers. A program official explained that the proposed changes would not have provided sufficient data to manage the affected programs.

In the second case, a contractor participant presented a concept for an alternative system in March 1995 and submitted a formal proposal in May 1995. However, DOD participants expressed concerns about various elements of the proposal. For example, both DCMC and DCAA officials expressed concern that this alternative would not provide information on indirect costs and would limit DOD's ability to audit the system and identify any corrective actions needed. Consequently, they considered the proposal to be "very risky" for the government. Although the contractor and DOD have been working to resolve the concerns—resulting in at least four revised proposals between May 1995 and March 1996—a DCMC official told us that in her view, the proposed system still does not adequately protect the government's interests. Agreement on moving to an alternative system had still not been reached by September 1996.

Similarly, DOD and contractor views on the merits of accounting for government property reflect fundamental differences of opinion. As noted

previously, DOD generally disapproved the participants' waiver requests, citing legislative and regulatory requirements. However, DOD officials also expressed skepticism about proposals to increase the dollar threshold for tracking government property from $1,500 to $5,000. One senior official within the Office of the Secretary of Defense noted that while DOD had recently raised the threshold to $1,500 based on industry input, DOD did not have sufficient information to support a higher threshold. Consequently, in this official's view, relaxing controls over millions of dollars of government property was not justified. Accordingly, DOD conditionally approved waivers requesting a higher accountability threshold by limiting it to 1 year and requiring contractors to perform a physical inventory validated by the government's property administrator. In addition, contractors would have to provide detailed information on various categories of property before the test period, with 6- and 12-month status reports to follow. According to DOD, this information would assist DOD in pursuing a potential threshold increase.

Contractor officials, however, viewed the additional information requested in a different light. According to contractor officials, they believed that they could significantly reduce administrative costs without substantially increasing the government's risk. In their view, the additional requirements imposed as a condition of the waiver defeated the intent of the original waiver to reduce costs. According to one contractor official, none of the contractors chose to implement it. Officials at two contractors stated the failure of virtually all attempts to reform what they perceived to be a relatively low-risk area significantly contributed to their loss of interest in laboratory efforts.

Coordinating and Obtaining Approval From Multiple Customers

Participants stated that since defense contractors produce items for more than one military service or federal agency, or serve as both prime and subcontractors, changing systems or processes is often complicated simply by the need to coordinate and receive approval from multiple customers. Participants noted that having multiple customers can slow down efforts to change and lessen potential cost reductions from process standardization.

Participants at one site provided the following example of a reinvention effort that fell into this category. In early 1996, DCMC approved a proposal combining 11 common process projects. However, some program offices did not fully accept the proposed changes. As a result, revisions were required to the approved process changes for 5 of the 11 projects. For

example, contracts for two program offices will include process changes related to eliminating the annual certification of contractor test stations, but the changes will also require the contractor to develop additional test procedures for approval by the government. In addition, one program office's contracts were excluded from all process changes. Accordingly, existing contracts involving these program offices will contain oversight requirements beyond those applicable to other program offices. The participants credited the involvement of senior level DOD officials as being instrumental in achieving as much as was accomplished. They said that without that involvement, this entire reinvention effort would not have been possible.

The difficulty of reaching agreement on reforms is increased when the contractor making a process change is both a prime contractor and a subcontractor to other prime contractors, or when it contracts with federal agencies other than DOD. For example, one laboratory participant explained that even when DOD approves changes to a process or a manufacturing standard for its prime contracts, that approval would not automatically extend to the subcontracts it performs for other prime contractors or to its contracts with non-DOD agencies. These changes would have to be negotiated separately with the other prime contractors or agencies.

Participants indicated that an important element in successfully changing practices is assuring that the affected program offices are involved early in the project and are kept fully informed. One program official noted, for example, that the lack of involvement by the program office and poor communication from the laboratory participants led the program office to be taken aback when the participant submitted several contract cost proposals that made substantial use of parametric estimating techniques, rather than the traditional detailed approach, and failed to submit other documentation as believed agreed to by the program office. As a result, the program office nearly rejected the contract cost proposals. According to the program official, the contractor had to dispatch several representatives to the program office to address the office's concerns and agreed to submit detailed estimates to support their proposed costs.[7]

[7]In commenting on a draft of this report, DCAA officials noted that the parametrics estimating project was being pursued under a separate initiative and suggested that we delete our discussion on the project. We note, however, that the project was clearly identified as being tracked under the reinvention laboratory by the cognizant management council in laboratory status reports. Similarly, the management council members we spoke with discussed its progress in our discussion of reinvention laboratory projects under their purview and made no distinction between initiatives. Finally, as we use the project as an example of the need to communicate rather than to evaluate the merits of parametric estimating, we feel its inclusion in the report remains appropriate.

Lessons Learned From Laboratory Experiences

On October 30, 1996, DOD announced it was in the process of ending the reinvention laboratory. Despite the limited cost reductions achieved, and the fact that it has decided to end the laboratory, DOD officials said they considered the effort—when taken in the context of a laboratory—to be successful. These officials noted that many of the lessons learned from the reinvention laboratory are being employed in the Single Process Initiative, including the use of management councils, the designation of senior service officials to facilitate the review and approval of proposals, the establishment of a 120-day goal to have proposals approved, and an improved mechanism for processing waiver requests. In particular, DOD believes that the laboratory's management councils provided a valuable forum for raising and discussing issues and has issued guidance to encourage their use at all field offices. DOD officials also noted that the current status of the Single Process Initiative is provided on a weekly basis to the Under Secretary of Defense for Acquisition and Technology. Overall, DOD officials believe that these factors will allow proposals submitted under the initiative to be reviewed and approved in a timely fashion.

Additionally, DOD officials noted that while the reinvention laboratory was limited to only 10 participants, participation in the Single Process Initiative is open to all DOD contractors. Given the broader base of potential participants and the more structured approach to reviewing and approving proposals, DOD officials believe the initiative will provide a more effective means for addressing many of the technically oriented issues such as manufacturing and quality assurance processes. These officials acknowledged, however, that they were less certain that it will be able to change administrative oversight requirements involving legislative and regulatory issues.

From a budgetary perspective, the laboratory's results, as well as our discussions with contractor and DOD officials, suggest that caution must be exercised in estimating cost reductions that can be achieved from oversight reform initiatives and using those reductions for budgetary purposes. DOD reports that through July 31, 1996, only $11 million of the $145 million in potential annual contractor cost reductions has been achieved from actions already implemented. DOD officials noted that it may be some time before it is known whether the remaining projects will be approved and implemented. Further, according to DOD and laboratory participants, implementation costs may partially offset cost reductions from proposed changes. One laboratory participant's analysis, for example, indicated that the $11.5 million projected cost to implement a

new quality assurance system would offset any cost reduction for at least 18 months.

Further, the amount of cost reduction that can actually be achieved from oversight reforms remains in question. While Coopers & Lybrand estimated that government acquisition regulations and oversight requirements added 18 percent to the cost of goods and services DOD buys, it cautioned about projecting the study's results to the entire defense industry since it had collected data from only 10 defense contractors and that it had made no attempt to measure the benefits of DOD's oversight requirements. While participants agreed the study was useful in focusing DOD's attention on specific cost drivers, they generally found the study's estimate on the impact of regulation and oversight requirements to be overstated at their companies. For example, 5 participants prepared estimates for the top 10 cost drivers and their estimates ranged from 1.2 to 6.1 percent compared to the study's estimate of 8.5 percent. DOD anticipates that more definitive assessments of the effects of regulatory reform and the costs associated with implementing new processes would be provided as the Single Process Initiative matures. DOD officials noted, however, that it is uncertain as to how much cost savings will be generated from this relatively new initiative.

Overall, while the laboratory results highlight the challenges faced by DOD, the results should not deter DOD from continuing its efforts to reduce nonvalue added oversight requirements. Rather, the reinvention laboratory suggests that continued commitment by senior DOD leadership is needed to make meaningful changes in DOD's culture and processes.

Agency Comments

DOD concurred with the report. DOD's comments are reprinted in appendix II. DOD also provided technical comments on a draft of this report, which have been incorporated in the report where appropriate.

Scope and Methodology

To determine the laboratory's success in effecting changes to DOD oversight requirements and reducing oversight costs, and to identify any obstacles to achieving these benefits, we reviewed the laboratory's December 1995 and July 1996 status reports and pertinent supporting documentation. These reports were prepared from data provided by DCAA, DCMC, and contractor participants. The reports' estimated cost reduction figures were generally rough order of magnitude estimates rather than detailed cost estimates. We did not independently verify the basis for or

the accuracy of the information. Further, we interviewed participants at 7 of the 10 laboratory sites to discuss the projects pursued under the laboratory, the factors affecting the laboratory's progress, and the participants' overall views on the laboratory. The laboratory sites we visited were

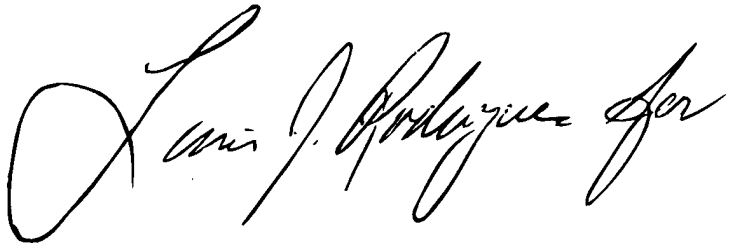
- Boeing Defense and Space Group, Seattle, Washington;
- Lockheed Martin Government Electronic Systems, Moorestown, New Jersey;
- Lockheed Martin Tactical Aircraft Systems, Fort Worth, Texas;
- Loral Vought Systems, Grand Prairie, Texas;
- McDonnell Douglas Aerospace, St. Louis, Missouri;
- Raytheon Electronics Systems, Bedford, Massachusetts; and
- Texas Instruments Defense Systems & Electronics Group, Dallas, Texas.

During these visits, we generally met with senior contractor, DCMC, and DCAA officials and reviewed pertinent documents relative to the status of cost reduction activities. Further, we obtained the views on selected laboratory projects from four of the services' participating program offices, including the Air Force's F-15, F-16, and F-22 system program offices and the Navy's AEGIS program office. We also discussed various issues concerning the laboratory's progress and the lessons learned from the laboratory with senior officials from the DCMC and DCAA headquarters at Fort Belvoir, Virginia. We also reviewed documentation for the waivers proposed by laboratory participants, including the waiver request, cost/benefit analyses, and DOD's final decision memoranda.

We conducted our work from March 1996 to December 1996 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretary of Defense; the Commander, Defense Contract Management Command; and the Director, Defense Contract Audit Agency. Copies will be provided to other interested parties upon request.

Please contact me at (202) 512-4841 if you or your staff any questions concerning this report. Major contributors to this report are listed in appendix III.



David E. Cooper
Associate Director,
Defense Acquisitions Issues

List of Congressional Committees

The Honorable Strom Thurmond, Chairman
The Honorable Carl Levin, Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Fred Thompson, Chairman
The Honorable John Glenn, Ranking Minority Member
Committee on Governmental Affairs
United States Senate

The Honorable Christopher Bond, Chairman
The Honorable John F. Kerry, Ranking Minority Member
Committee on Small Business
United States Senate

The Honorable John R. Kasich, Chairman
The Honorable John M. Spratt, Jr., Ranking Minority Member
Committee on the Budget
House of Representatives

The Honorable Dan Burton, Chairman
The Honorable Henry A. Waxman, Ranking Minority Member
Committee on Government Reform and Oversight
House of Representatives

The Honorable Floyd D. Spence, Chairman
The Honorable Ronald V. Dellums, Ranking Minority Member
Committee on National Security
House of Representatives

Contents

Abbreviations

DCAA	Defense Contract Audit Agency
DCMC	Defense Contract Management Command
DOD	Department of Defense
FAR	Federal Acquisition Regulation
TINA	Truth in Negotiations Act

Potential Cost Reductions From Reinvention Laboratory Efforts

Dollars in millions

Cost driver	Description	Coopers & Lybrand's estimated cost impact[a] (percent)	Number of participants with potential reductions	Estimated potential reductions[b]	Percent of total estimated potential reductions[c]
Quality program requirements	An umbrella military specification (MIL-Q-9858A) requiring contractors to establish quality assurance programs to ensure compliance with contract requirements.	1.7	9	$86.5	59.7
Truth in Negotiations Act	A statute (P.L. 87-653) requiring contractors to justify cost proposals and proposed contract prices with detailed cost or pricing data that must be certified as accurate, complete, and current.	1.3	6	9.1	6.3
Cost/schedule control system requirements	A requirement that contractors have an integrated management control system to plan and control the execution of cost-reimbursable contracts.	0.9	6	6.1	4.2
Configuration management requirements	A military standard (MIL-STD-973) for DOD approval of all contractor configuration changes to technical data packages.	0.8	2	2.2	1.5
Contract specific requirements	DOD-imposed requirements that are not codified in statutes, regulations, military specifications, or standards.	0.7	5	16.8	11.6
Defense Contract Audit Agency/Defense Contract Management Command interface	Cost deriving from daily interaction of contractor personnel with auditors from the Defense Contract Audit Agency and quality inspectors and functional experts from the Defense Contract Management Command.	0.7	3	2.4	1.7
Cost Accounting Standards	Requirements for ensuring consistent and equitable allocation of costs and for disclosing accounting practices and contractor interpretation of certain standards.	0.7	0	0	0
Material management and accounting system	A requirement (Defense Federal Acquisition Regulation Supplement part 242.72) for certain contractors to establish and maintain a system that accurately forecasts material usage and ensures that costs of all materials are appropriately allocated to specific contracts.	0.6	5	5.8	4.0
Engineering drawings	A guideline (MIL-STD-100E) for preparing engineering drawings.	0.6	2	3.8	2.7

(continued)

Dollars in millions

Cost driver	Description	Coopers & Lybrand's estimated cost impact[a] (percent)	Number of participants with potential reductions	Estimated potential reductions[b]	Percent of total estimated potential reductions[c]
Government property administration	A requirement (Federal Acquisition Regulation part 45) that contractors assume responsibility for maintaining and accounting for government-owned property.	0.5	7	2.5	1.7
Other		•	7	9.7	6.7
Total		•	•	**$144.9**	**100.0**

[a]Measured as a percentage of the contractor's compliance costs compared to its value-added costs. Value-added costs are the contractor's total costs less the costs of material purchases, including subcontracts.

[b]Potential contractor cost reductions as of July 31, 1996.

[c]Totals may not add due to rounding.

Comments From the Department of Defense

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

JAN 22 1997

Mr. David E. Cooper
Director, Acquisition Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Cooper:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "ACQUISITION REFORM: DoD Faces Challenges In Reducing Oversight Costs," dated December 18, 1996 (GAO Code 707154/OSD Case 1269). The Department concurs with the report.

Technical corrections to the report were separately provided. The Department appreciates the opportunity to comment on the draft report.

Blair G. Ewing
Director, Chief Financial Officer Support

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